MISSION

The mission of Société générale de financement du Québec is to promote and participate in partnerships to carry out industrial development projects in strategic sectors of the Québec economy in accordance with the economic policies of the Government of Québec. In fulfilment of this mission, SGF manages a group of large manufacturing enterprises and pursues their development in accordance with criteria of growth and profitability.

SGF was established in 1962 and its shareholder is the Government of Québec. With assets of $1.2 billion, SGF is one of the largest industrial groups in Québec.

SGF is active in the aluminum, petrochemical, forest products, transportation equipment, shipbuilding and energy equipment industries.

To promote further industrial development based on Québec's strategic advantages, SGF intends to enter other sectors, selected for their potential in terms of growth, earnings and synergy.

In keeping with its industrial development mission, Société générale de financement du Québec and its partners pursued during 1990 three major capital projects which, on completion, will represent a total investment of almost $2 billion. Of this amount, $525 million was committed in 1990. SGF's share of the total is $468 million, of which $140 million was committed in 1990.

These ventures will strengthen the industrial base of various regions of Québec. In addition to the economic activity stimulated by their construction, they will directly and indirectly generate more than 5,000 permanent jobs.

Financial Results

For the second consecutive year, SGF's financial results were unsatisfactory. The company had a consolidated net loss of $53.8 million in 1990 compared to a net loss of $227.4 million, the largest in its history, in 1989. Sales were $510.7 million in 1990 compared to $554.6 million in 1989, a decrease of 8%.

The industries in which SGF operates were faced with adverse conditions. These included the strength of the Canadian dollar relative to the U.S. dollar, the Persian Gulf crisis and the persisting North American recession. These factors affected all companies of the SGF group.

However, SGF's loss for the year was primarily due to Domtar Inc., which in 1990 sustained a net loss of $294 million or $3.53 per common share on earnings of $2.3 billion. In addition to the factors noted above, Domtar was severely affected by a cyclical trough in the pulp and paper and packaging markets and a slump in the North American construction industry. However, these external conditions were not the only reasons for the loss, which also reflects one-time charges of $334 million including more than $250 million in writedowns of assets. Excluding non-recurring items, Domtar's net loss would have been $87 million. In 1989, Domtar had net earnings of $33 million on sales of $2.5 billion.

Volatile aluminum prices, the strength of the Canadian dollar and a slowdown in demand resulted in a decrease in Albecour's earnings in 1990. This subsidiary nevertheless had net earnings of $31.8 million on sales of $118.3 million, compared to net earnings of $48.8 million on sales of $144.2 million in 1989.

Le Groupe MIL Inc. had a net loss of $5.6 million on sales of $243.8 million in 1990, compared to a loss of $307.5 million on sales of $269.6 million in 1989. However, the 1989 loss included $257.5 million in losses and provisions, net of estimated claims, representing the excess over sale price of the total projected cost of construction of ships. The 1990 loss was due essentially to an increase in financing expenses resulting from the losses of prior years.

Éthylec had a net loss of $1.1 million on sales of $148.6 million in 1990, compared to net earnings of $23.6 million on sales of $140.8 million in 1989. The small increase in sales is attributable to growth in polyethylene sales and marginally higher prices for Pétromont products. The loss for the year was due mainly to a provision of $3.9 million following a decision to close Alcools de Commerce Enrg. It is also attributable to the increase in feedstock costs that resulted from the international Middle East crisis and to a shutdown of the Varennes plant in October to permit new production capacity to be integrated with existing infrastructures.

Despite a major decline in automobile production, Ligma Corporation performed well. This result was due to notable improvements in productivity and an increase in the sale price of one of its main products. Ligma had net earnings of US$2.3 million on sales of US$49.3 million in 1990, compared to a loss of $14.6 million on sales of $35.1 million in 1989. SGF owns 45% of Ligma through its wholly owned subsidiary Industries Devma Inc.

SGF's financial position remains sound. Cash at year end – comprising cash and temporary investments, net of bank loans – was $47.7 million.

Highlights

The personnel of MIL and its subsidiaries and divisions devoted a good part of their energies in 1990 to the contracts for the construction of Canadian patrol frigates and the rebuilding of Trump destroyers. Among the major developments were a new crisis in MIL's cash position early in the year, resolved by loan guarantees from the Québec and federal governments; the preparation and submission of a special report on MIL's position to the federal Minister of Industry, Science and Technology in May; the $1.7 billion lawsuit brought by Saint John Shipbuilding Limited against Le Groupe MIL; and Québec-Ottawa negotiations concerning settlement of the losses on the two contracts.

In response to the deterioration of Domtar's situation throughout the year, a new management team quickly adopted comprehensive measures to reduce costs and hasten the return to profitability. The new team also began preparation of a major strategic plan aimed at effecting a turnaround as rapidly as possible. This plan should be completed in the coming months.

The third potline of the Bécancour aluminum smelter was completed on schedule at less than the budgeted cost. The last pot was powered up on February 28, 1991, expanding Bécancour's capacity from 240,000 to 360,000 tonnes per annum.

SGF and its partner Union Carbide have almost completed construction of a new high-density polyethylene plant unit at the Pétromont petrochemical complex

in Montréal-Est, as well as a capacity expansion program at the Pétromont ethylene plant in Varennes. These investments, mainly in new production systems and the installation of a Unipol-type reactor for polyethylene production, are valued at more than $220 million. They will improve productivity and allow Pétromont's capacity to be better exploited.

At the Alouette aluminum smelter near Sept-Îles, following the green light given by the six owners in September 1989 and a complete review of the project in the summer of 1990, engineering and construction work continued within budget and on schedule. SGF owns 20% of this $1.3 billion smelter, scheduled for startup in mid-1992.

Outlook

The current unfavorable economic conditions, which could continue through 1991, will create further major challenges requiring energetic and imaginative response. The ground rules for manufacturers and for new industrial ventures have been altered by the major and justified attention required by environmental issues. The costs and lead times imposed by new rules have become very important factors in the consideration of major investments.

During 1991 Le Groupe MIL will pursue its efforts to reach a comprehensive settlement of its patrol frigate and Trump destroyer contracts and to decide, in concert with the federal and Québec authorities, the future of the Davie yard at Lauzon. SGF also intends to contribute actively to the development and implementation of the Domtar recovery plan, with the aim of maximizing the medium-term value of its investment.

With a view to vertical integration and greater added value, SGF is intensifying its efforts to develop downstream aluminum processing. SGF will also seek to rationalize its operations in the aluminum industry by integrating the management of primary metal production and the development of downstream manufacturing.

In petrochemicals, SGF's first objective is to follow through on the corporate reorganization recently implemented with its partner Union Carbide, bringing their Varennes and Montréal-Est facilities under integrated Pétromont management. A decision on construction of a linear alkylbenzene plant, a project that SGF has undertaken with its Spanish partner Petresa, should be made in the third quarter. A decision is also expected in the third quarter on the Soligaz project, a venture of crucial importance for the Montréal petrochemical industry and a prerequisite for a number of additional projects that SGF could promote with other partners.

SGF also wishes to be a significant player in new industrial sectors through large-scale ventures for the manufacture of technology-intensive products.

In this regard, the concentration of aerospace companies in the Montréal area and the growing international demand for aerospace products manufactured in Québec create favorable conditions for SGF involvement in the development of this market, through the establishment of a major industrial consortium and strategic alliances with Canadian or foreign companies.

Québec companies are well-established in sectors of the electronic industry including telecommunications, information systems, electronic components and electro-optics. SGF aims to create and expand companies in this industry by forming strategic alliances with reputable companies and organizations to accelerate the acquisition, development and commercial marketing of these advanced technologies.

SGF's short-term priorities will, of course, focus on a return to profitability, but also on actions and strategies that will enable SGF to fulfil its mission and to contribute to the economic and industrial growth of Québec.

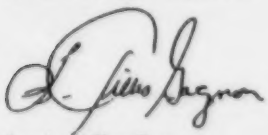
Board of Directors

In September 1990 the Board of Directors accepted the resignation of its Chairman, President and Chief Executive Officer, Mr. Paul Berthiaume. On behalf of the Board and management of SGF, I would like to thank Mr. Berthiaume for his major contribution to the operations and orientation of the company.

Mr. André Bérard resigned from the Board in March 1990 and I would like to reiterate the appreciation of his colleagues for the considerable contribution he made during his term of office. Mr. Louis-Paul Nolet was elected to the Board of Directors in May 1990.

Finally, on my own behalf and on behalf of the Board of Directors, I would like to express appreciation to all employees of SGF and its subsidiaries and affiliated companies for their ability, effort and commitment throughout the year.

Montréal, April 10, 1991.



Louis-Gilles Gagnon
Acting President

HOLDINGS

Aluminum

Albecour, société en commandite

Société générale d'aluminerie Inc. 100%

Aluminerie de Bécancour Inc.

Pechiney Reynolds Québec Inc. 50.1%

Albecour, société en commandite 24.95%

Alumax Québec Inc. 24.95%

2645-6608 Québec inc.

Société générale de financement du Québec 100%

Aluminerie Alouette Inc.

2645-6608 Québec Inc. 20%

Société en commandite VAW Aluminium Canada 20%

Aluminium Austria Metall (Québec) Inc. 20%

Hoogovens Aluminium Québec, société en commandite 20%

Kobe Aluminium Canada Inc. 13.33%

Marubeni Québec Inc. 6.67%

Petrochemicals

Éthylec Inc.

Société générale de financement du Québec 100%

Pétromont, société en commandite

Éthylec Inc. 50%

Union Carbide Canada Limited 50%

Pipeline Shawinigan Enrg.

Éthylec Inc. 50%

Union Carbide Canada limitée 50%

Forest Products

Dofor Inc.

Société générale de financement du Québec 100%

Domtar Inc.

Dofor Inc. 27.6%

Caisse de dépôt et placement du Québec 18.4%

Other shareholders 54.0%

Shipbuilding and Energy Equipment

Le Groupe MIL Inc.

Société générale de financement du Québec 65%

GEC Alsthom NV 35%

Transportation Equipment

Industries Devma Inc.

Société générale de financement du Québec 100%

Les Industries MFB Inc.

Fibrecorp Industries Inc. 55%

Industries Devma Inc. 45%

Ligma Corporation

Magna International Inc. 55%

Industries Devma Inc. 45%

Other Investments

GEC Alsthom Énergie Inc.

Société générale de financement du Québec 10%

Novacap Investments Inc.

Société générale de financement du Québec 15.7%

Aluminum

SGF is engaged in the aluminum industry in the first instance through its wholly-owned subsidiary Albecour, Société en Commandite. Albecour holds a 24.95% share of the ultramodern Bécancour aluminum smelter. The other owners of Bécancour are Pechiney of France and Reynolds Metals of the United States, which jointly and equally hold a 50.1% share, and Alumax of the U.S., whose share is 24.95%.

SGF also owns 20% of the Alouette project, a smelter of 215,000 tonnes per year capacity currently under construction near Sept-Îles at a cost of $1.3 billion. SGF's partners in the Alouette smelter are VAW of Germany (20%), Austria Metall of Austria (20%), Hoogovens Group of the Netherlands (20%), Kobe Steel of Japan (13.33%) and Marubeni of Japan (6.67%).

The owners of each smelter are individually responsible for procuring their quota of alumina (the mineral from which aluminum is obtained) and for selling their quota of aluminum produced.

Financial Results

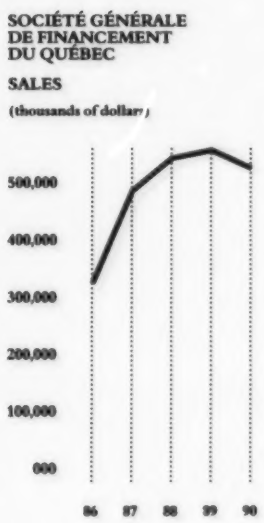
Aluminum prices were highly volatile during 1990. The causes included a strong Canadian dollar, uncertainty of aluminum supply from the Persian Gulf, and weakness of demand, especially in the auto parts and housing industries.

Albecour sold its full quota of Albecour primary aluminum – sheet ingot, extrusion billets and remelt ingot – in Canada, the United States and Europe. Sales were $118.3 million and net earnings were $31.8 million, compared to sales of $144.2 million and net earnings of $48.8 million the previous year.

Highlights

Work on the smelter at Sept-Îles, begun in September 1989, continued on schedule and within budget. Startup is planned for June 1992. A number of agreements have been signed or are under negotiation, including the contract for alumina procurement and the agency contract under which Albecour will market SGF's share of production from this smelter.

The construction of Bécancour's third potline, authorized on December 1, 1988, has been completed within budget and on schedule. This investment will expand the smelter's capacity from 240,000 to 360,000 tonnes per year.



Outlook

With the realization of these two major projects, SGF will have 133,000 tonnes per year of aluminum production at its disposal and will accordingly intensify its efforts to develop downstream processing. With a view to taking advantage of opportunities provided by the globalization of markets and the Canada-U.S. free trade treaty, SGF intends to leverage its holdings in the Bécancour and Sept-Îles smelters and its primary metal capacity to develop, with partners, ventures characterized by high added value.

Petrochemicals

SGF is engaged in the petrochemical industry through its wholly-owned subsidiary Éthylec Inc. Éthylec is an equal partner with Union Carbide Canada Limited in Pétromont, Société en Commandite and in Pipeline Shawinigan Enrg.

Pétromont operates an olefins plant at Varennes which will soon have an annual capacity of 265,000 tonnes of ethylene and 460,000 tonnes of other products, mainly propylene and aromatics. Pétromont also operates a low-density polyethylene plant of 150,000 tonnes annual capacity at Montréal-Est.

Pipeline Shawinigan operates a pipeline system linking the Montréal-Est and Varennes facilities.

SGF and Union Carbide are also equal partners in Alcools de Commerce Enrg., which operates an industrial ethanol plant at Varennes. Faced with the entry into the market of new and more competitive capacity, this plant will be closed in May 1991.

Financial Results

Éthylec's financial performance in 1990 was influenced by a number of factors. The Persian Gulf crisis disturbed crude oil prices and thus the price of feedstocks for ethylene production. Further, Pétromont had in 1989 launched a two-year, $220 million program to expand the capacity of the Varennes plant and build a new high-density polyethylene plant at Montréal-Est. In addition, a temporary shutdown of the Varennes plant was required in October to integrate new production capacity with the existing infrastructure. The recession and the addition of substantial new capacity reduced Pétromont's margins. Finally, Éthylec in 1990 provisioned anticipated losses related to the closing of Alcools de Commerce.

As a result of these factors, Éthylec had a net loss of $1.1 million on sales of $148.6 million in 1990 compared to net earnings of $23.6 million on sales of $140.8 million in 1989.

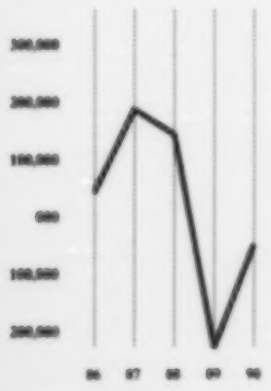
Highlights

The production and storage capacity of the Varennes ethylene plant will be expanded from 225,000 to 265,000 tonnes in June 1991, improving the productivity of the plant and allowing its capacity to be better exploited. Also during the year Pétromont pursued the construction at Montréal-Est of a 200,000-tonne high-density polyethylene plant featuring Unipol technology, which will come on stream in September 1991.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NET EARNINGS (NET LOSS)

(thousands of dollars)



Pétromont is already a major factor in the polyethylene market. The construction of the Montréal-Est facility and the expansion of production capacity will mean greater penetration of the Canadian market and – through Union Carbide Chemicals and Plastics of Danbury, Connecticut – of the U.S. market.

Pétromont is also pursuing feasibility studies for the Soligaz project in a consortium with Soquip, Noverco and SNC. This project consists of building a pipeline network and storage facilities to supply Western Canadian natural gas liquids to the Montréal petrochemical centre. Soligaz is a priority for SGF, since it would provide Pétromont with a reliable and flexible source of feedstocks and allow optimization of its raw material costs.

Outlook

Further major ventures would be made possible by the Soligaz project. These include expansion of ethylene capacity to a world-scale level of approximately 500,000 tonnes, improving Pétromont's competitiveness on the North American market. Such an expansion would require development of downstream projects to use the additional ethylene and propylene output. In this perspective, SGF could undertake, with partners, projects including expansion of Pétromont's polyethylene capacity or the construction of other facilities, including a vinyl chloride monomer plant.

SGF also aims to join with Petresa of Spain in building a plant to produce linear alkylbenzene, a surfactant used in the production of household and industrial detergents.

Forest Products

Domtar Inc. is a natural resources company in which SGF holds a 27.6% interest through its wholly-owned subsidiary Dofor Inc. Domtar supplies customers worldwide with a broad range of pulp and paper and packaging products and with a wide variety of construction materials manufactured in Canada and the United States.

Domtar is the leading Canadian producer of uncoated fine papers, producing more than 500 grades of paper of widely varying characteristics at mills located in Québec and Ontario. Domtar is the largest Canadian manufacturer of containerboard and owns 50% of Domtar Sonoco Containers Inc., the leading Canadian manufacturer of composite cans. It operates three newsprint and specialty papers mills serving the North American market. Domtar makes a wide range of building materials; it is the third largest North American supplier of gypsum board and the largest producer of melamine-surfaced particleboard. In addition, Domtar is a leader in the recycling and re-use of paper, containerboard and wood and gypsum residues.

Financial Results

Confronted with a recession in Canada, a cyclical decline in the pulp and paper and packaging markets, a significant downturn in the North American construction industry and a relatively strong Canadian dollar, Domtar sustained a substantial loss in 1990. The year ended with a net loss of $294 million compared to net earnings of $33 million in 1989.

This result includes a net gain of $30 million from divestments and primarily reflects non-recurring charges related to writedowns and provisions of $237 million after taxes. Without these major non-recurring items, the net loss would have been $87 million. Domtar had an operating loss of $45 million before non-recurring charges in 1990 compared to operating earnings of $124 million before non-recurring charges in 1989.

Highlights

The organizational restructuring initiated in 1989 was pursued to further flatten Domtar's organizational pyramid and make the company more efficient and competitive. A total of 1,300 positions – approximately 26% of the non-unionized workforce – will have been eliminated by the end of 1991. Further personnel reductions are foreseeable as part of this reorganization.

Cash management became a greater priority for Domtar in 1990. Operating working capital was reduced by $89 million from 1989 and capital investment by $122 million. In parallel with these measures, Domtar closed or mothballed various facilities that could not be operated profitably under current conditions.

Outlook

Although the organizational streamlining program and other measures will reduce operating costs, overall economic conditions and specific conditions in each of Domtar's business areas have deferred the profitability that would otherwise have accrued from the recent completion of various expansion and investment programs. The same factors can be expected to depress 1991 earnings.

Under these conditions, Domtar is currently evaluating the strategic options available to it with a view to concentrating its businesses in the areas of greater profitability potential. These and other measures will enable Domtar to improve its competitive position and to benefit fully from business opportunities that will arise when the economy begins to recover.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CAPITAL EXPENDITURES

Shipbuilding and Energy Equipment

Le Groupe MIL Inc. is a large industrial complex manufacturing a variety of heavy-industrial and high-precision products. It is owned 65% by SGF and 35% by GEC Alsthom, a Franco-British consortium. MIL has four divisions: shipbuilding and ship repair (MIL Davie), at Lauzon; energy systems (MIL Tracy), near Sorel; naval design and engineering (MIL Systems Engineering), based in Ottawa; and MIL Offshore at Montréal, which capitalizes on the future development of the offshore oil and gas industry.

Financial Results

In 1990 MIL and its subsidiaries pursued their operations in naval engineering, shipbuilding and the manufacture of energy systems. With sales of $243.8 million for the year, MIL had a loss of $5.6 million, compared to sales of $269.6 million and a loss of $307.5 million in 1989.

The 1990 loss was due essentially to an increase in financial expenses resulting from the losses of prior years.

Highlights

MIL Davie's Lauzon yard pursued its main projects, the modernization of the first two destroyers for Litton Systems Canada Limited and the assembly of three Canadian patrol frigates for Saint John Shipbuilding Limited. The yard also handled an increased volume of ship repair contracts during the year. MIL Davie manufactured three sonar domes for the U.S. navy and received orders for two additional units.

In July 1990, Saint John Shipbuilding sued Le Groupe MIL and subsidiaries for $1.7 billion in direct and punitive damages for breach of the frigate contract. In August, MIL sued Saint John Shipbuilding in the Federal Court of Canada, demanding corrections to prices and work schedules on grounds of multiple changes to drawings and delays in delivery of material required for assembly of the patrol frigates.

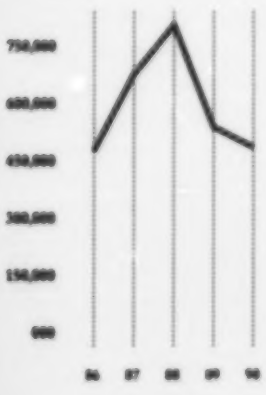
The volume of business in naval design and engineering consulting was low in 1990. In addition to the cyclical nature of this business, developments in international relations have resulted in a reevaluation of Canadian national defence policy.

MIL Systems Engineering nevertheless remains the Canadian leader in its field. In the coming years, the division hopes to play a major role in the engineering of new Canadian offshore oil drilling projects.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

SHAREHOLDER'S EQUITY

(thousands of dollars)



MIL Tracy ended 1990 with more than $400 million in orders on hand for the years 1991 through 1994 and the possibility of $500 million in additional orders for hydroelectric equipment between now and 2000.

Despite the reduction of its workforce at the end of the program for construction of modules for the patrol frigates, 1990 was a year in which MIL Tracy strengthened its position as a builder of energy-related equipment.

New marketing programs for turbogenerators and hydroelectric bulbs were developed with GEC Alsthom and investments have been made in training, equipment and site rationalization.

Major contracts have been signed with Hydro-Québec for the manufacture of 10 turbogenerator units. Work is continuing on major contracts for Manitoba Hydro, Société d'énergie de la Baie James, the Keswick project in the U.S. and the Geheyan hydro project in China.

The transfer of nuclear technology from MIL Vickers to MIL Tracy was completed in 1990 and MIL Tracy was accredited by Atomic Energy of Canada Limited (AECL). The manufacture of a small research reactor for South Korea is continuing and in 1991 AECL's sale of a Candu nuclear reactor to the same country will result in MIL's first calandria contract.

Outlook

During 1991 Le Groupe MIL will pursue its efforts to reach a comprehensive settlement of its contracts for the construction of the Canadian patrol frigates and the rebuilding of the Trump destroyers. MIL will also be required in the coming years to make a decision, in concert with the federal and Québec authorities, regarding the future of the Davie yard at Lauzon.

In energy equipment, the outlook is good. MIL Tracy's expertise in this area has resulted in a number of contracts for supply of energy equipment and has strengthened its position in this market, which is highly competitive and global in nature. This division is now in a more advantageous competitive position.

Transportation Equipment — Automotive Industry

SGF entered the transportation equipment industry in 1989, forming a strategic alliance with Magna International, of Markham, Ontario, to carry out automotive industry ventures in Québec. In parallel with this agreement, SGF acquired, through its wholly-owned subsidiary Industries Devma Inc., a 45% interest in Ligma Corporation and in Industries MFB Enrg. The other 55% of these two companies is owned by Magna.

Ligma, located at Nashville, Illinois, uses ultramodern technology to mould, finish and assemble wood fibre panels for automobile interiors. Ligma began commercial delivery of door panels in March 1989, supplying Ford and Chrysler.

Financial Results

Manufacturers of original parts experienced a difficult year in 1990 because of the decline in production of automakers. However, the Ligma plant improved its performance. The reasons included productivity gains resulting from an appreciable reduction in reject rates and an increase in the selling price of door panels for the Ford Aerostar.

Ligma had net earnings of US$2.3 million on sales of US$49.3 million in 1990, compared to a net loss of US$14.6 million on sales of US$35.1 million in 1989.

SGF's share of Ligma earnings for the year was C$7.4 million, including a gain from reorganization of the company.

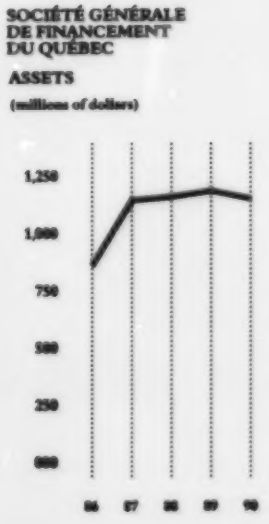
Highlights

A joint effort by SGF, its partner Magna and Ligma management achieved profitability for Ligma in 1990 despite the auto industry downturn. With this objective attained, SGF and Magna have established, under their strategic agreement, a procedure for review of investment opportunities and approval of projects. The two partners are currently assessing the feasibility of a new venture for the manufacture of auto parts in Québec. This project could be launched in early 1993.

Outlook

In the coming years, SGF intends to focus its efforts in the automotive industry on major ventures for the manufacture of new technology-intensive products, products required by new environmental protection legislation and by new trends for substitute materials.

Transportation Equipment — Aerospace Industry



Québec aerospace companies accounted for 43% of Canadian aerospace shipments in 1990. This concentration, combined with strong world demand for existing and new products of Québec manufacturers and assemblers, creates favorable conditions for the maintenance and accelerated development of a market for the leading Québec aerospace subcontractors. In parallel with the establishment of a large-scale industry consortium, SGF seeks to enter into strategic alliances with foreign companies for ventures to develop the potential of this growth sector.

OFFICERS' REPORT

To the Shareholder of
Société générale de financement du Québec

In the discharge of its duties, the Board of Directors of Société générale de financement du Québec has delegated to its officers the preparation of its consolidated financial statements.

The consolidated financial statements for 1990 have been audited by an independent firm of auditors, Samson Bélair Deloitte & Touche, before their presentation to the Board of Directors, which has approved them upon recommendation of the duly constituted and appointed Audit Committee.

The management believes that these statements have been prepared in accordance with generally accepted accounting principles. They take into consideration, within reasonable limits, all significant accounting policies referred to in the notes to the consolidated financial statements.

The information contained in this financial report is consistent with the consolidated financial statements included herein.

Louis-Gilles Gagnon
Acting President
April 10, 1991

AUDITORS' REPORT

To the Shareholder of
Société générale de financement du Québec

We have audited the consolidated balance sheet of Société générale de financement du Québec as at December 31, 1990 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Samson Bélair
Deloitte & Touche
Chartered Accountants
February 15, 1991

CONSOLIDATED BALANCE SHEET

as at December 31

(in thousands of dollars)	1990	1989
Current assets		
Cash and temporary investments	$ 90,730	$ 194,106
Accounts receivable	114,706	108,626
Contracts in progress, net of progress billing	—	2,730
Inventories	58,722	44,792
Prepaid expenses	4,682	4,351
Current portion of long-term investments	2,800	5,355
Net assets of discontinued operations (Note 2)	14,324	540
	285,964	360,500
Long-term investments (Note 3)	322,540	409,564
Fixed assets (Note 4)	536,217	395,618
Other assets, less amortization of $31,152,000 ($23,851,000 in 1989)	18,484	27,906
	$1,163,205	$1,193,588
Current liabilities		
Bank loans (Note 5)	$ 43,065	$ 48,758
Accounts payable and accrued liabilities	123,951	97,982
Current portion of long-term debt	24,695	21,087
Progress billing, net of costs of contracts in progress	54,008	—
Provision for guarantee and deferred revenue	3,467	—
Provision for foreseeable loss on contracts in progress	59,040	—
	308,226	167,827
Deferred exchange gain	11,253	16,386
Provision for guarantee	24,718	28,450
Provision for foreseeable loss on contracts in progress (Note 6)	155,787	257,506
Long-term debt (Note 7)	152,151	159,494
Minority interest	22,432	21,610
Shareholder's equity		
Capital stock (Note 8)	347,500	347,500
Translation adjustments	(4,477)	(4,589)
Retained earnings	145,615	199,404
	488,638	542,315
	$1,163,205	$1,193,588

On behalf of the board

John D. Thompson
Director

Georges-A. Pouliot
Director

CONSOLIDATED STATEMENT OF EARNINGS

year ended December 31

(in thousands of dollars)	1990	1989
Sales	**$510,723**	$ 554,632
Earnings before the following items	**$ 56,353**	$ 70,568
Deduct		
Depreciation of fixed assets	**23,670**	21,610
Amortization of other assets	**7,301**	7,203
Amortization of goodwill	**900**	900
Amortization of deferred foreign exchange gain	**(4,774)**	(7,515)
Interest and expenses on long-term debt	**6,174**	17,748
Interest and expenses on short-term debt	**5,131**	3,281
Other assets write-off	**7,593**	—
Other investments write-off	**580**	—
	46,575	43,227
Add		
Investment income	**18,217**	27,584
Share in earnings of companies subject to significant influence	**(88,107)**	(5,767)
	(69,890)	21,817
	(60,112)	49,158
Provision for foreseeable loss on contracts in progress (Note 6)	**—**	(257,506)
Minority interest	**(822)**	(822)
Loss from continuing operations	**(60,934)**	(209,170)
Discontinued operations		
Loss from discontinued operations (Note 2)	**(3,232)**	(21,187)
Share in earnings of discontinued operations of a company subject to significant influence	**10,377**	2,916
Net loss	**$ (53,789)**	$(227,441)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

year ended December 31

(in thousands of dollars)	1990	1989
Balance at beginning	**$ 199,404**	$ 451,845
Net loss	**(53,789)**	(227,441)
	145,615	224,404
Dividends	**—**	25,000
Balance at end	**$ 145,615**	$ 199,404

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

year ended December 31

(in thousands of dollars)	1990	1989
Operating activities		
Cash provided by continuing operations (Note 9)	$ 29,185	$ 88,654
Changes in non-cash operating working capital items related to operations and holdbacks on contracts	62,366	23,843
Changes in provision for guarantee and deferred revenue	(265)	9,763
	91,286	122,260
Financing activities		
Increase in long-term debt	17,015	18,465
Repayments of long-term debt	(21,109)	(20,869)
Changes in long-term advances on contracts	—	(20,865)
Dividends paid	—	(25,000)
	(4,094)	(48,269)
Investing activities		
Net changes in long-term investments	2,976	(13,116)
Other assets	(5,472)	(9,136)
Net acquisition of fixed assets	(165,363)	(81,935)
	(167,859)	(104,187)
Changes in cash provided by continuing operations	(80,667)	(30,196)
Cash used for discontinued operations	(17,016)	(37,462)
Cash at beginning	145,348	213,006
Cash at end	$ 47,665	$ 145,348

Cash comprises cash and temporary investments, net of bank loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended December 31, 1990

1. SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation principles

The consolidated financial statements include the accounts of the Company, those of its subsidiaries, which are accounted for under the full consolidation method, as well as the accounts of its partnerships and limited partnerships, which are accounted for under the proportionate consolidation method.

The earnings of subsidiaries, partnerships and limited partnerships are included in the consolidated financial statements as of their respective dates of acquisition and until their respective dates of disposition, if applicable.

b) Accounting of revenue from design and manufacturing contracts

The Company accounts for its revenue from shipbuilding and from naval and industrial engineering under the percentage of completion method; revenue from the hydroelectric sector is accounted for as units are completed. Provisions for guarantee are accounted for when revenues are recognized. The Company provides for any foreseeable loss.

c) Inventories

Inventories are valued at the lower of average cost and net realizable value.

d) Contracts in progress

Contracts in progress include the costs of direct labour, materials and overhead plus any estimated profit.

e) Long-term investments

The investments in Domtar Inc. and Ligna Corporation, companies subject to significant influence, are accounted for using the equity method. Other long-term investments are recorded at cost.

f) Consolidated goodwill

Goodwill is amortized using the straight-line method over a period of forty years.

g) Fixed assets and depreciation

Fixed assets are recorded at cost, less all related grants. They also include interest charged during the construction of certain plants. The Company provides for depreciation principally using the straight-line method based on the estimated useful lives of the assets.

h) Start-up costs

Start-up costs include the excess of operating costs incurred during a smelter start-up stage over comparable operating costs during normal operation, plus financial expenses incurred during this same period. These costs are amortized using the straight-line method over a period of five years in proportion to the number of pots put into operation.

i) Income taxes

Earnings of the Company and of its wholly-owned subsidiaries are not subject to income tax. The other companies, which are subject to income tax, follow the tax allocation method in providing for income taxes.

j) Translation of foreign currency

Monetary assets resulting from foreign currency transactions are translated into Canadian dollars using the year-end exchange rates. Sales, purchases and capital expenditures are translated throughout the year at the exchange rates prevailing at the transaction dates.

Exchange gains or losses arising on translation of long-term debt are deferred and amortized using the straight-line method over its remaining life.

The translation adjustment shown in shareholder's equity includes mainly the exchange gains or losses arising on translation of investments in foreign subsidiaries.

k) Pension plans

Current service pension costs of defined benefit plans are included in the earnings for the year. The cost of past services and the actuarial surplus or deficit are amortized over the expected average remaining service life of the employee group which benefits from the plans.

2. DISCONTINUED OPERATIONS

During the year, management decided to discontinue the operations of Commercial Alcohols reg'd, which operated a petrochemical enterprise manufacturing ethyl alcohol.

In 1989, management decided to discontinue the operations of MIL Vickers Inc., a company which designed and manufactured industrial products. The net assets include the following items at realizable value.

(in thousands of dollars)	1990	1989
Net assets from discontinued operations		
Current assets, excluding fixed assets for sale	$ 21,504	$ 24,724
Fixed assets for sale	878	5,832
Current liabilities	(8,058)	(30,016)
	$ 14,324	$ 540
Earnings (loss) from discontinued operations		
MIL Vickers Inc.	$ 664	$ (21,628)
Commercial Alcohols Reg'd	(3,896)	441
	$ (3,232)	$ (21,187)

Sales from discontinued operations amount to $8,741,000 in 1990 ($25,589,000 in 1989).

3. LONG-TERM INVESTMENTS

(in thousands of dollars)	1990	1989
Domtar Inc., market value of $234,146,000 ($312,195,000 in 1989)	$259,357	$352,898
Ligma Corporation	15,096	7,577
Other		
Subordinated debentures, 6%, payable until 1997	17,500	20,000
Subordinated notes, at a maximum rate of 8½% until March 1993 and at prime rate thereafter, payable in 1998	20,000	20,000
Note, 8%, payable until 1[illegible]	2,950	2,500
Other investments	10,437	11,944
	325,340	414,919
Current portion	2,800	5,355
	$322,540	$409,564

The Company holds 27.59% (27.69% in 1989) of the voting shares of Domtar Inc. The carrying value of the investment includes unamortized goodwill of $44,741,000 ($45,986,000 in 1989).

The Company holds 45% of the voting shares of Ligna Corporation. The carrying value of the investment includes unamortized goodwill of $3,752,000 ($3,848,000 in 1989).

Goodwill represents the excess of the cost of the shares over the book value of net assets of companies subject to significant influence as of their dates of acquisition, and is amortized under the straight-line method over forty years.

4. FIXED ASSETS

(in thousands of dollars)	1990	1989
Land	$ 7,383	$ 7,344
Buildings and equipment	582,649	459,630
Construction in progress	104,623	67,010
	694,855	533,984
Accumulated depreciation	158,638	138,366
	$536,217	$395,618

During the year, the Company capitalized interest amounting to $9,610,000 (nil in 1989).

5. BANK LOAN GUARANTEES

A short-term bank loan of a subsidiary amounting to $15,021,000 ($37,389,000 in 1989) and the subsidiary's letters of guarantee amounting to $13,721,000 ($2,719,000 in 1989) are secured by a general assignment of inventories and accounts receivable as well as some of the subsidiary's term deposits and bonds issued under trust deeds carrying fixed and floating charges on all other assets of the subsidiary not specifically pledged.

The short-term bank loan of a limited partnership amounting to $6,260,000 ($710,000 in 1989) is secured by the pledge of collateral mortgage demand bonds providing for a fixed and floating charge on all assets of the limited partnership.

6. PROVISION FOR FORESEEABLE LOSS ON CONTRACTS IN PROGRESS

In 1989, a subsidiary of the Company has recorded $257,506,000 as a provision and loss for the year representing the excess of the aggregate foreseeable loss from construction of vessels over their selling price. The provision has been determined at the end of the year 1989 using naval engineers' reports. Construction of vessels should end in 1995.

The change in the provision for the year is as follows:

(in thousands of dollars)

Balance as at December 31, 1989	$257,506
less: amounts used to compensate costs in 1990	42,679
	214,827
less: current portion	59,040
Balance as at December 31, 1990	$155,787

7. LONG-TERM DEBT

(in thousands of dollars)	1990	1989
Subsidiaries and affiliated companies		
Bank loans, at prime are plus ¼ of 1% or LIBOR rate plus ½ of 1%, payable in semi-annual instalments	$129,664	$146,635
Bank loan, at prime rate plus ¼ of 1%, secured by the pledge of collateral mortgage demand bonds providing for a fixed and floating charge on all assets of a limited partnership, convertible in to an eight-year term loan	13,464	—
Due to the federal government, without interest, payable in annual instalments of $1,000,000 as of 1991	10,000	10,000
Loan, at prime rate plus ¼ of 1%, secured by debentures issued under trust deeds which carry specific or floating charges on all assets of a subsidiary not specifically pledged, payable until 1997	6,295	7,200
Bond, as an investment vehicle for a subsidiary's pension fund, 7%, payable until 1994	4,344	5,381
Due to a company subject to significant influence, without interest, no terms of payment	5,000	5,000
Bonds, 11¼%, secured under a first trust deed which carries specific or floating charges on all assets of a subsidiary not specifically pledged, maturing in 1991	1,488	2,920
Other	6,591	3,445
	176,846	180,581
Current portion	24,695	21,087
	$152,151	$159,494

Long-term debt includes $111,750,000 ($126,650,000 in 1989) in US currency. Under an interest rate swap agreement, a subsidiary has fixed the rate on a portion of long-term debt amounting to US$20,000,000 at an effective interest rate of 10.35% over a remaining life of 1.3 years.

Capital payments due within each of the next five years are as follows:

	CA$	US$
1991	5,245,000	16,763,000
1992	4,092,000	18,625,000
1993	3,234,000	20,487,000
1994	5,550,000	22,350,000
1995	2,195,000	22,350,000

8. CAPITAL STOCK

The Company's shares are owned by the Province of Québec.

(in thousands of dollars)	1990	1989
Authorized shares, with a par value of $10 each		
41,500,000 Common shares		
Issued and paid		
34,750,000 Common shares	$347,500	$347,500

9. CASH PROVIDED BY CONTINUING OPERATIONS

Loss from continuing operations	$ (60,934)	$(209,170)
Items not affecting cash		
Depreciation of fixed assets	23,670	21,610
Amortization of other assets	7,301	7,203
Amortization of goodwill	900	900
Amortization of deferred exchange gain	(4,774)	(7,515)
Other assets write-off	7,593	—
Other investments write-off	590	—
Gain on disposal of fixed assets	(124)	(477)
Share in earnings of companies subject to significant influence	88,107	5,767
Dividends from a company subject to significant influence	7,505	12,008
Minority interest	822	822
Fixed assets write-down	1,218	
Provision for foreseeable loss on contracts in progress	(42,679)	257,506
	$ 29,185	$ 88,654

10. COMMITMENTS

a) Société générale d'aluminerie Inc.

As at December 31, 1990, the balance of future commitments for the owners of Aluminerie de Bécancour Inc. regarding the construction of a third potline at the Bécancour plant was $21,000,000. The Company's share of this commitment amounts to $5,240,000.

b) Pétromont, société en commandite

Pétromont, société en commandite, which is affiliated with Éthylec Inc., received financial assistance from the governments of Canada and Québec totalling $50,000,000 for the years 1983 and 1984 as compensation for losses incurred during these two years. This financial assistance included clauses providing for the reimbursement of capital and interest, beginning with the year ending December 31, 1993 and depending on the profitability of the partnership, up to a maximum of $10,000,000 per year. No amount has been provided in the accounts with respect to the eventual reimbursement of this financial assistance.

In prior years, the partnership received financial assistance from the Government of Québec to compensate for certain of its losses and to provide for the financing of certain capital projects. The agreement called for the reimbursement of $5,100,000 in 1990. Pursuant to a supplementary agreement entered into on April 1, 1990, the reimbursement of this amount and of interest established at prime rate starting January 1, 1990 is postponed to January 1, 1994. The Company's share of this debt amounts to $2,909,000, including $359,000 of interest. It has been accounted for in earnings, for the year and is included in long-term debt.

The Company and the special partners of Pétromont, société en commandite are committed to complete capital projects of $177,000,000 before December 31, 1992. As at December 31, 1990, the balance of future commitments relating to these capital projects amounted to $66,000,000. The Company's share of this commitment amounts to $33,000,000.

c) 2645-6608 Québec Inc.

On September 1, 1989, the owners of the aluminerie Alouette project signed an agreement to construct an aluminum plant in Sept-Îles at an estimated cost of $1,325,000,000. As at December 31, 1990, the balance of future commitments was $1,064,000,000. The Company's share of this commitment amounts to $212,800,000.

d) Donohue St-Félicien Inc.

Under the terms of an agreement signed in June 1977, the Company has agreed to lend the required funds to Donohue St-Félicien Inc. for the payment of interest and capital of first mortgage bonds issued by the Company at a par value of US$100,000,000 and $35,000,000 if these funds were unavailable through other means. As at December 31, 1990, the balances of these bonds were US$43,750,000 and $15,312,000 and the debtor foresees having sufficient funds for the yearly payment of capital and interest in July 1991.

The Province of Québec has secured the Company's commitment.

e) Leases

The significant operating leases under which the Company and its subsidiaries are committed for the next five years amount to $16,902,000.

11. PENSION PLANS

According to the last actuarial valuations, accrued pension benefits, accumulated assets and actuarial surplus of the various plans of subsidiaries of the Company are as follows:

(in thousands of dollars)	1990	1989
Actuarial value of accrued pension benefits	$55,416	$45,521
Market value of assets available for pension benefit payment	56,294	49,937
Actuarial surplus	$ 878	$ 4,416

12. CONTINGENT LIABILITIES RELATING TO THE SHIPBUILDING INDUSTRY SEGMENT

During the year, Le Groupe MIL Inc. has been sued for $1,700,000,000 plus interest in relation with industrial engineering and shipbuilding contracts. Le Groupe MIL Inc. contest that legal action and has filed a claim for an amount to be determined.

In 1989, Le Groupe MIL Inc. filed a $20,000,000 claim against a company for breach of contract related to shipbuilding. This company filed a counterclaim for $109,000,000 which is contested by Le Groupe MIL Inc.

Certain shipbuilding contracts have been declared in default. Le Groupe MIL Inc. denies default and is negotiating alternative solutions with his customers.

In the opinion of management, the outcome of these claims cannot be determined. Any resulting profit or loss will be accounted for in income.

13. COMPARATIVE FIGURES

Certain figures from 1989 have been reclassified to conform with the financial statement presentation adopted for 1990.

FIVE-YEAR REVIEW

Year ended December 31

(thousands of dollars)	1990	1989	1988	1987	1986
Operations					
Sales	$ 518,723	$ 554,632	$ 539,830	$ 492,725	$ 315,639
Earnings (loss) before the following items:	(43,354)	(193,293)	153,455	69,021	55,755
Depreciation of fixed assets	23,670	21,610	21,830	20,172	11,450
Interest	11,305	21,029	18,398	19,109	7,851
Income from investments	18,217	27,584	21,963	10,964	3,496
Earnings (loss) before other items	(60,112)	(208,348)	135,190	40,704	39,950
Minority interests	(822)	(822)	5,466	11,014	(275)
Earnings (loss) before discontinued operations and extraordinary items	(60,934)	(209,170)	140,656	51,718	39,675
Discontinued operations	7,145	(18,271)	6,353	—	—
Extraordinary items	—	—	—	142,248	2,982
Net earnings (net loss)	(53,789)	(227,441)	147,009	193,966	42,657
Capital Expenditures	165,363	81,935	32,529	40,592	86,361
Balance Sheet					
Working capital	(22,262)	192,673	253,920	135,651	16,149
Investments	322,540	409,564	413,938	398,234	345,471
Fixed assets	536,217	395,618	336,106	357,914	342,699
Other assets (liabilities)	(173,274)	(274,436)	(20,767)	(3,781)	18,648
Long-term debt	(152,151)	(159,494)	(167,172)	(212,500)	(254,541)
Minority interests	(22,432)	(21,610)	(20,788)	(5,770)	(10,056)
Shareholder's Equity	$ 488,638	$ 542,315	$ 795,237	$ 669,748	$ 478,370

HUMAN RESOURCES

As at December 31

Number of Employees by Industry Sector

	1990	1989
Aluminum		
Albecour Inc.	9	8
Aluminerie de Bécancour Inc.	1,126	790
Aluminerie Alouette Inc.	86	11
Petrochemicals		
Alcools de Commerce Enrg.	74	73
Pétromont, Société en Commandite and Pétromont Inc.	316	293
Forest Products		
Domtar Inc.	13,280	15,819
Shipbuilding and Energy Equipment		
Le Groupe MIL Inc.	4,671	4,050
Transportation Equipment		
Ligma Corporation	220	219
Other	33	36
Total	19,815	21,299

BOARD OF DIRECTORS

(as at April 10, 1991)

Michel Audet
Deputy Minister,
Ministère de l'Industrie,
du Commerce et de la
Technologie

André Brouillette
President,
Gestion Brouillette Inc.

Franco Fava ●
Secretary,
Neilson Excavation Inc.

Yves Graton ●
Company Director

Robert Gratton ▲ ●
President and Chief
Executive Officer,
Power Financial Corporation

Yves Guérard ▲
Chairman of the Board and
Chief Executive Officer,
Sobeco Inc.

Jean-Yves Leblanc
President,
Transportation Equipment
Group, Bombardier Inc.

Yseult Lefebvre-Richard
President,
J.B. Lefebvre Limitée

Louis-Paul Nolet
Partner,
Biron, Lapierre, Dubé,
Nolet, Falardeau, Leblond &
Associés

Georges-A. Pouliot, Q.C. ●
Senior Partner,
Pouliot, Mercure

Henri A. Roy ●
Group Vice-President,
International Telecom,
BCE Inc.

John D. Thompson ▲ ●
President and Chief
Executive Officer,
Montréal Trust

▲ Member of the Executive Committee
● Member of the Audit Committee
● Member of the Human Resources Committee

MANAGEMENT

(as at April 10, 1991)

Louis-Gilles Gagnon
Acting President and
Vice-President and
General Counsel

Claude Hélie
Vice-President, Finance
and Treasurer

Louis M. Riopel
Vice-President,
Corporate Development

Guy Ouimet
Associate Vice-President,
Corporate Development

Michel R. Béland
Counsel and Secretary

Michel Carrier
Director, Finance

Richard Fredette
Director, Strategic Planning

François Ghali
Director, Communications

Bernard Hamel
Director,
Transportation Equipment

Patrick G. Hiron
Director, Petrochemicals

Michel Jacques
Director, Aluminum

Roger Jenkins
Director, Electronics

Jacques Mallette
Controller